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LOWER RATES BOOSTING HEALTH CARE REIT STOCKS

The growing consensus that cheaper money lies ahead is booming stocks of the healthcare REITs. Since we reviewed the group last December, their stock prices have moved up 7%. As a result the healthcare leaseback group reviewed this issue now average 12.0% yield at current market prices, down a full 1% since last Dec. but almost exactly even with a year ago.

Because of their structure, leaseback REITs and MLPs are excellent vehicles to ride during a rate downturn. But not every healthcare REIT will do well and our reviews focus upon these key points you should examine in picking stocks:

Leverage and spread. These REITs benefit from leverage and spread tradeoffs that boost EPS, CFS and dividends when rates decline. Most healthcare REITs buy medical properties using both investor equity and borrowings. They seek to make a net spread on each borrowed dollar. This boosts earnings if invested assets earn as expected and interest rates don't rise on borrowings, pinching the spread earned on borrowings.

For this reason, most healthcare REITs try to lock in a spread by borrowing at fixed or capped rates. Thus American Health Properties and Health Care Properties have recently completed fixed-rate financings.

In picking stocks, the amount of fixed-rate vs. floating-rate debt is fully as important in EPS as the aggregate debt/equity ratio. In a falling rate environment such as now, a high percentage of floating rate debt will boost EPS more quickly. The reverse is true in an up-rate market. The table below shows capitalization of the healthcare group, total debt and the percentage of fixed-rate debt, and the debt/equity ratio.

	--Mil.$--		--Debt--		Lev.
Stock	Assets	Eq.	$	%Fixed	Ratio
Amer.Hlth.Props.	$267M	$194M	$131M	100%	0.7
Angell Rl.Estate	147	39	105	69	2.7
Forum Ret.Part.	137	71	55	21	0.8
Health Care Pr.	405	152	225	70	1.5
Health Care REIT	187	73	111	46	1.5
HealthVest.	450	215	230	43	1.1
Hlth. & Rehab.Pr.	154	82	70c	100c	0.9
Meditrust	560	232	298	66	1.3
Nationwide Hlth.	274	146	125	13	0.9
Univ.Hlth.Rlty.	138	92	45	12	0.5
TOTALS	$2,786M	1295M	1395M	58%	0.98

c-Rate floats to caps.

Credit quality of lessees. The healthcare REITs have tended to be priced partly based upon credit quality of their underlying lessee operators of their properties. With most healthcare REITs now leasing to several operators, this underlying credit valuation becomes more complex. Leveraged buyout and takeover attempts at some big nursing home and healthcare operators are also clouding credit quality. Some current examples: American Medical Intl., the sole lessee for American Health Properties, is currently target of a buyout attempt. AHE's leases call for a premium rental rate to kick in if the credit rating of AMI falls, which could happen in a takeover.

Meditrust's principal lessee, Mediplex, is being sold by Avon Products Inc. to a newly organized private company. MT is seeking some credit enhancement as compensation for the changing ownership of its largest lessee.

HealthVest's sponsor and adviser, Healthcare International, has proposed an LBO to take HII private. A 9.6% stake in HVT held by HII would be distributed to HII shareholders under the proposal.

Should you take this route to invest in the health care industry now? Investors buying health care REITs (and one MLP) are signing on as owners of special purpose properties with special risks which ought to be clearly understood. Generally properties are suitable for medical use; if operators falter, a new health operator must be found, which narrows the search for substitute tenants.

A related concern is asset quality. The medical field is hot and venture capital investors are entering rapidly; some are borrowing from the health care REITs (see Health Care REIT review). Despite all the growth predicted for health care, market saturation could shave spreads or, in some cases, lead to assets becoming non-earning. Several health care REITs, notably Nationwide Health Properties (formerly Beverly Investment Props.) and Health Care REIT have already encountered problems with lessees, and there's no guaranty that more problems won't surface. Our feeling is to go with quality, notably Health Care Property. American Health Props. and Universal Health Realty are also strong. HealthVest and Health Care REIT are recovery candidates.

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AMERICAN HEALTH PROPERTIES, INC. (AHE:NYSE)

AHE, originally sponsored by American Medical Intl. (AMI-NYSE), owns a portfolio of Sunbelt acute care hospitals net leased to AMI. Now self-administered, AHE seeks to diversify beyond AMI. AHE has agreed to finance construction and/or buy properties operated by several third-party operators and has just closed a $125 mil. private placement. Our B Ranking is maintained.

Gut Issue: What effect would an acquisition of major lessee AMI have on AHE? Two investment groups are looking to take AMI private. The most recent offer for $27 a share is from Brian M. Freeman Enterprises. The previous $24 a share offer comes from a group including AMI's largest shareholder, M. Lee Pearce (10%). Each offer requires over $1.5 bil. in debt financing, conceivably lowering AMI's credit rating and affecting its quality as a lessee of AHE facilities.

AHE has protection: in AHE's initial offering, AMI unconditionally guaranteed its leases and agreed to pay an additional 15% over current base and additional rents during any period in which its credit rating falls below investment grade. If triggered, the net effect would be to add at least $0.05/share per quarter to AHE's EPS. AMI appears strong enough operationally that it could shoulder the additional debt of an LBO.

AHE began operations in Feb. 1987 with seven acute care hospitals with 1,609 licensed beds, bought from AMI for $271 mil. appraised value or $168,400/bed. AMI operates the hospitals under guaranteed leasebacks at 11.6% of purchase price. Starting in 1988, AHE received 5% of incremental rents over minimum base rents for an additional $1 mil., or $0.09/sh. Overage rents will add $725,000 or $0.065/share to June qtr. results (AHE reports these rents on a one-quarter lagged basis).

AHE is moving into psychiatric and rehabilitation care facilities. In late 1988 an 80-bed rehabilitation hospital next to its Denver hospital began construction; AHE provided $12 mil. in construction financing and will buy the property and net lease it to Continental Medical Systems (CONT: OTC) upon completion in June. AHE has funded a $60 mil. participating mortgage loan on a Four Winds, Inc. psychiatric hospital in White Plains, N.Y. and has agreed in principle to invest approx. $37 mil. in another two in 1989.

AHE's centers, beds, cost and minimum rents in mil. $ are:

Center/City	Beds	Cost	Rents
Kendall Ctr., Miami	412	$60M	$7.0M
Palm Beach Garden, Fla.	204	45	5.2
N.Fulton, Roswell,Ga.	175	25	2.9
Frye Ctr., Hickory,NC	275	40	4.6
Lucy Lee, Poplar Blf,MO	201	20	2.3
Presbyterian, Aurora,CO	134	26	3.0
Tarzana (Cal.) Reg.Ctr.	212	55	6.4
TOTALS	1,613	$271M	$31.4M

CFS and Dividends. For 1988 AHE's CFS jumped 19% to $2.19/sh. over 1987's 10-1/2 month period. In the Mar. quarter AHE's CFS increased another 6% to $0.57/share. In recognition, AHE bumped the dividend by $0.01 per share to $0.55/qtr. or $2.20 annualized. With new facilities coming online we see 1989 CFS reaching $2.35/share, giving AHE room for further dividend growth.

Advice: Buy shares for long term growth and current yield. AHE operations have a margin of safety; facilities generate over 3 times lease coverage, providing strong buffer. If AMI experiences credit downgrading, payout to AHE would increase. Involvement in construction projects may boost risk moderately. (MJH)

AHE-NYSE Rank B Dec. years 11.11 mil. shs.
Price: $20.25 Div. $2.20 Yld. 10.9% P/CF Ratio: 8.6

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1987	$1.34a	$1.84a	$1.72a	$20.00	$12.00	15- 9%
1988	1.58	2.19	2.10	19.50	14.88	14-11
1989E	1.60	2.35	2.24	20.50	17.88z	

z-To date. a-Approx. 10.5 mon. beginning Feb. 20.

Debt $130.97 mil. Equity: $193.95 mil.; Accum. deprec. $13.4 mil. (combined $18.67/sh.). Debt/equity ratio: 0.66-1. AMI owns 9.8%.

Address: 11150 Santa Monica Boulevard, Ste. 800, Los Angeles, CA 90025. (213) 477-9399.

ANGELL REAL ESTATE CO. (ACR:NYSE)

ACR, a healthcare leaseback REIT, converted from MLP to REIT status in Jan. 1988. ACR now owns 80 nursing homes with 5,544 beds with 16 facilities acquired in 1988. All facilities are net leased. Beverly Enterprises (BEV:NYSE), the troubled healthcare operator, is lessee of 44% of ACR's facilities, down from 78% at 1987 year-end. We continue B Rank on ACR.

Gut Issue: Will a restructuring BEV continue to fuel ACR's stock? BEV has been selling facilities to reduce debt and hopes to raise $148 mil. thru the sale of up to 20,000 beds this year. While still running in the red ($0.18 per share loss in the Mar. quarter), BEV has been actively attempting to reduce red ink, and recently renegotiated bank-lines of $770 mil. This apparently has been good news for ACR investors, who have bid

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the stock to new highs.

ACR has diversified away from BEV by acquiring nine facilities from sponsor Angell Care, Inc. in Mar. 1988, paying $27 mil. for 1,035 beds ($26,090/bed). Most recently (Sept. 1988) ACR added 7 facilities acquired from Indianapolis retirement community developer The Forum Group for $21.5 mil. or $28,515 per bed, using 11.25% first mortgage debt. In 1988, ACR sold a 76 bed Fla. facility for $2.75 mil. or $36,184 per bed.

ACR's nursing homes are in N.C., Ky., Tenn., Col., Ind. and Ill. Nine facilities are purchased/leased back to sponsor Angell Care Inc. Four independent operators run non-BEV facilities. All homes are on a net lease basis. BEV-leased centers are mostly located in Ind. (four in Ill.), as are the majority of ACR's other homes.

EPS, CFS and Dividends. Mar. quarter CFS of $0.43 was 2% higher than the previous year. In its first year as a REIT, ACR's CFS was $1.68 vs. $1.65 in 1987 as an MLP. Facilities acquired in 1988 should add about $0.20-0.25/sh. cash flow on an annual basis. ACR has leveraged itself to acquire these properties, and with debt a lofty 2.7 times shareholders' equity, any problem properties could hurt EPS. Debt is 69% fixed-rate, so an upside move in rates would hurt relatively little. Absent property problems and higher rates, a dividend increase in 1989 is likely. New earning capacity should highlight ACR's diversification and continue to bolster the shares.

Advice: Buy shares for yield and play on interest rate reductions. With decreasing interest rates, ACR, like all health care REITs, should benefit. With 1988's acquisitions, ACR has reduced portfolio risk. The $1.52 payout rate seems secure under current cash flow levels and should be stable/up for 1989, especially with BEV's problems seemingly under control. Look for forays into capital markets to raise money for growth. But increasing competition for properties could lower yields. (MJH)

ACR-NYSE Rank B Dec. years 3.62 mil. shares
Price: $11.25 Div.$1.52 Yld. 13.5% Price/CFS 6.5X

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	$(0.20)a	$0.09a	$0.26	$16.00	$13.25	NM-NM
1987	0.25	1.65	1.50	15.88	9.63	16-9%
1988	(0.21)b	1.68	1.52	12.25	8.00	18-12z
1989E	(0.45)	1.75	1.55	11.50	8.13z	

a-Initial period from June 30, 1986. b-First year operating as REIT z-To date.

Debt $105.0 mil. Equity: $38.6 mil. total $13.30/sh. including $9.6 mil. deprec. Debt/Equity ratio: 2.7-1.
Address: Box 48, 915 W. Fourth St., Winston-Salem, NC 27102. (919) 723-7580.

Health REITs 6/1989

FORUM RETIREMENT PARTNERS L.P. (FRL:ASE)

Indianapolis-based FRL is a publicly traded limited partnership (MLP) formed to buy congregate care retirement centers (RCs) with 1,961 total units. FRL's centers combine apartment, assisted living and nursing home units (1,113, 139 and 709 units respectively). RCs are net leased to and operated by FRL's sponsor, Forum Group Inc. (FOUR:OTC). Two RCs have rented more slowly than expected, giving rise to fears of a sharp dividend cut when sponsor support ends in Dec. 1989. We retain C Rank.

Gut Issue: Can FRL fill units in time to avoid a major dividend cut? Rentup has gone slowly for FRL, but climbed 2% to 84% overall in the March qtr. Two large RCs, 251-DU Park Summit at Coral Springs (Fla.) and 256-DU Montevista at Coronado in El Paso, Tex., are notable laggards. Park Summit has now hit 78% occupancy and is expected to reach a 90% stabilized occupancy by Aug. Montevista is now at 54% and won't reach 90% until April 1990. A third slow RC, Montebello at Academy in Albuquerque, has now climbed over 80%.

At current rent-up rates FRL will reach a normalized 90% occupancy at year-end. And since RCs typically need far less marketing push once they get full, marketing costs should fall sharply in 1990.

Occupancy is crucial for FRL's cash flow and dividends because of FRL's leveraged capital structure. FRL is split into 6.38 mil. publicly traded preferred units now paying $1.35 in annual distributions, and 2.055 mil. common units held by the sponsor and paying no dividends. In 1988 the sponsor provided about 55% (or $0.74/sh.) of the preferred payout by buying 350,000 new preferred shares at the initial offering price of $12.75/sh.

But that support runs out on Dec. 31, 1989 and the two classes will begin receiving the same dividends based on the combined number of shares outstanding. If FRL needs the maximum support the rest of this year, 1990 cash flow would be divvied up between 8.78 mil. combined units. Combined cash flow was $0.38 in 1988 and could go as low as $0.25-$0.30 in 1989, which will be hurt by ongoing marketing costs at slow RCs. Our early-on guess is that 1990 will see recovery to about $0.35-$0.50/un. cash flow, which is our best guess for the scaled-back dividend.

However, the equation could change if FRL sells one or two RCs. It has been working on such sales to third-party buyers for some time but nothing has closed. If any sales materialize, any capital gains would be distributed and remaining funds retained for operations.

Current value: FRL puts current value at $11.08 per combined unit at Dec. 1988. If our projections are right, this number could move up a bit on more shares outstanding at the end of 1989.

Long-term debt of $54.5 mil. is 0.77 times $70.4 mil. equity. That's in the middle of the range of leaseback REITs.

Debt is $41 mil. unsecured credit and the rest mortgages and loans payable to FOUR.

Advice: Very speculative commitments may now be made. FRL shares are down 21% since our Dec. 1988 review and have sold as low as $3.88, which we think may represent a bottom. We're not enamoured with FRL's status as a financial creature of FOUR but enough good things are now falling into place for FRL that longer-term recovery is possible. (KDC)

FRL-ASE Rank C Dec. years 5.93 mil. Pfd. units
Price: $5.63 Div. $1.35 Yld. 25.1%

Year	Op.EPU	CFU	Div.	High	Low	Yield
1986	NM	NM	NM	$12.75	$12.63	NM
1987	(0.10)	$0.30	$1.35	14.25	7.75	17- 9%
1988	(0.41)	0.38	1.35	11.38	5.75	23-12
1989E	NE	NE	1.35	6.63	3.88z	

z-To date. NM-Not meaningful; offered Dec. 19, 1986. NE-No estimate.

Debt $52.6 mil. Combined prefered and common equity: $72.4 mil.; deprec. $5.5 mil.; total $9.21 combined shs. Debt/equity ratio: 0.73-1. FRL's current value, $11.08/un. at 12/88.
Address: 8900 Keystone Crossing Ste. 1200, P.O. Box 40498, Indianapolis, Ind. 40498. Phone (317) 846-0700

HEALTH CARE PROPERTY INVESTORS, INC. (HCP:NYSE)

The first of the 1980s generation of health care REITs, HCP was also first to become independent from its sponsor, National Medical Enterprises (NME:NYSE), and become internally administered. HCP also was first to buy properties net leased to third-party operators, giving it diversification by operator (only 52% leased to NME now). HCP owns 131 properties located in 30 states; 75% by cost are nursing homes, 2% congregate care centers, 10% acute-care hospitals, 8% rehabilitation hospitals, and 4% psychiatric and under construction. Its leadership is shown by the lowest dividend yield among health care REITs. Our A Rank holds.

Gut Issue: Will lower interest rates boost HCP shares? With long-term interest rates falling and HCP dividends rising, HCP shares have been strong recently, touching a new recovery high of $28.75 at press time. Most investors seem to view HCP shares as a bond equivalent with growth potential and have been pricing it at about 0.75-0.85% over five-year Treasuries.

With Treasuries falling sharply in recent days and expected to fall even further in coming months, HCP's current 9.8% yield could move down to the 9.3-9.5% yield range, or a price of about $29.50-$30.25. Moreover, HCP has been boosting dividends at $0.0125/qtr.; if, as we believe, this trend continues thru the fourth qtr., the estimated $2.96 annualized payout points to a price potential near $32, or a total return of about 19.4% over the next year.

What could go wrong with our scenario? First and foremost, the rate picture could turn around. Health care REITs thrive on positive leverage and spread. Falling rates can boost EPS but sharply rising rates could pinch EPS. We think falling rates are much more likely over the next six-12 months.

Second, HCP assets could become nonearning if health industry operations worsen or the industry becomes overbuilt. Investors have become so conditioned to expect double-digit growth in health care that they gloss over government cost-containment pressures, payment delays, intense competition, and personnel shortages. In the Mar. qtr., HCP's cash flow, while up 4.3% to $0.73/sh., was restrained by losses on a Mich. nursing home and a build-up of Medicare receivables.

HCP has a number of built-in policy safeguards to minimize risk of such negatives, and overcoming problems when they arise. For instance, HCP has $22.3 mil. letters of credit (LOCs) backing up non-NME leases, including $10 mil. from Beverly Enterprises Inc., HCP's second largest lessee after HCP acquired from BEV 26 nursing homes and a congregate living center for $62 mil. in Oct. 1988.

Liquidity and Cash Flow: Altho HCP's $224.5 mil. debt is 1.5 times equity, all but about $20 mil. is fixed or capped rate, insulating EPS. HCP has a good record of raising money when it needs funds and in April sold 1.0 mil. new shares at $25.63 and has registered $75 mil. of debt for sale from time to time as rates become favorable. We see 1989 net cash flow at about $3.05-3.10/sh., with another 8%-10% gain in 1990.

Advice: Buy for longer term. HCP is the quality holding, for both growth and above average income, in a group that represents an interesting play on lower interest rates. (KDC)

HCP- NYSE Rank A Dec. yrs. 8.18 mil. shs.
Price: $ 28.38 Div. $2.81 Yld. 9.9% Price/CFS: 9.4X

Yr.	Op.EPS	CFS	Div.	High	Low	Yld.Range
1985	$1.04a	$1.31	$0.73	$23.50	$19.00	11.8- 9.6%a
1986	1.79	2.50	2.30	31.25	20.25	11.4- 7.4
1987	1.74	2.70	2.46	31.38	21.75	11.3- 7.8
1988	1.67	2.93	2.635	28.25	23.63	11.2- 9.3
1989E	1.70	3.10	2.905	28.75	24.63z	

a-Seven months; dividend annualized. z-To date.

Debt $224.5 mil.; Equity: $151.9 mil.; accum. deprec. $28.8 mil.; total $22.09/sh. Debt/equity ratio: 1.51. NME owns 5.8% of shares.
Address: 10990 Wilshire, Ste. 1200, Los Angeles, CA 90024. (213) 473-1990.

HEALTH CARE REIT, INC. (HCN:ASE)

HCN finances construction and start up of smaller nursing homes, mostly in the Midwest, by making land/lease-backs meant to be repurchased via options in 6-10 years. It has expanded into retirement apartment units. It finances or owns 71 facilities with about 6,616 nursing home beds, 797 retirement center units, and 294 psychiatric beds. HCN uses modest leverage and has periodically sold stock to raise new capital. HCN's impressive long-term EPS and dividend growth was interrupted in 1988 when several problem homes surfaced. We continue to rank shares B.

Gut Issue: Can HCN continue its fast recovery from 1988 setbacks? HCN boosted June qtr. payout 5% to $1.60 annual rate, signalling a comeback from the $1.52 annual rate HCN set last Oct. when it first began coping with six troubled facilities in four locations. HCN has invested $13.8 mil. in the six, or 7.5% of gross investments. They became nonearning largely because of cost pressures and, in the case of a N.Mex. retirement center, competitive pressures. Current status of the six:

Location	Beds	Mil.$	Occ.	Comment
Ft. Wayne, Ind.	203(a)	$6.2	73%	Occupancy improving steadily
Detroit, Mich.	139	1.9	97	Payments brought current
Camp Verde, AZ	120	3.3	77	Occupancy and rates up
Santa Fe, N.Mex.	150	2.4	73	Leaseup seen 5/90; Funds added

a-Three facilities.

HCN took over the Ft. Wayne property and a related entity, WT Management, is building occupancy. The Michigan property was brought current in a court settlement. The Ariz. nursing home was granted significant rate increases in Jan., and owners of the Santa Fe retirement center injected new funds in May. We see these four situations as fading in EPS impact.

HCN's business is shifting from reliance on direct financing leases to a healthier mix of lease and mortgage loans. Leases are down to 49% of $185.1 mil. investments, while loans are up to 41%.

EPS, cash flow and liquidity: HCN earnings fell 10% to $1.70/sh. in 1988, due to impact of the four problems. But EPS held level at $0.49/sh. in the March qtr. and we now see EPS recovering to the $1.90-$2.00/sh. level for 1989. This should pave the way for further dividend increases as 1989 unfolds.

Current value: As a financing REIT with little property ownership, HCN's $12.11/sh. book value reflects current value.

Advice: Buy in aggressive accounts for longer-term recovery. We have a good comfort level in HCN's ability to deal with problems, and investors get 11% yield while waiting. (KDC)

HCN-ASE Rank B Dec. years 6.03 mil. shs.
Price: $14.25 Div. $1.60 Yld. 11.2% Price/EPS: 7.6X

Year	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1985	$1.64	NA	1.46	$17.13	$12.75	12-9%
1986	1.60	1.71	1.54	19.13	12.88	12-8
1987	1.89	1.91	1.65	18.38	13.63	12-9
1988	1.70	1.76	1.70	18.38	10.75	16-9
1989E		1.90-2.00	1.80	14.75	11.38z	

z-To date.

Debt $111.1 mil. Equity at cost: $73.0 mil. or $12.11/sh. Debt/equity ratio: 1.52-1.

Address: One SeaGate, #1950, Box 1475, Toledo, OH. 43603. (419) 247-2800.

HEALTHVEST (HVT:ASE)

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HVT was organized in May 1986 to own 35 hospitals and other health facilities, most of which are operated under lease by its sponsor, Healthcare International Inc. (HII-ASE). HVT has grown rapidly to own over 2,000 beds; HVT also makes mortgage loans to finance construction of new facilities and about 28% of $437 mil. invested assets are in mortgages. Investor concern is focused upon a management-led leveraged buyout proposal for the sponsor. B Rank is continued.

Gut Issue: How will HVT prosper if its major tenant and sponsor HII goes private? HII is showing signs of being unable to handle rapid expansion and lost $18.2 mil. or $2.43/sh. in the nine months thru March. With a debt/equity ratio of 11.7:1 after recent losses, HII is very heavily leveraged due to rapid building of new properties.

To exit the bind, HII's executives proposed in April to buy the 73% of HII they don't already own for $4.25/sh. In addition, HII would distribute to its shareholders the 1.086 mil. HVT shares it owns at approx. 0.14 HVT share per HII share. Since HII principals own 27% of HII, they would wind up owning about 293,000 HVT shares directly.

We see two problems with this LBO/spinoff plan: (1) Piling additional debt upon an already leveraged adviser/lessee likely won't enhance the lessee's credit standing in the eyes of HVT shareholders; and (2) HII shareholders might be inclined to dump HVT shares they receive, putting selling pressure on HVT stock. The LBO/spinoff hasn't been approved by outside directors, so a lot can still happen. On balance, the LBO could let investors focus more clearly on HVT's own results.

Mac Mgt

Operationally, HII's problems have not yet hurt HVT's bottom line. HVT's cash flow is dependent on the sponsor's bed revenue, not profitability. HVT's lease payments were covered 1.5 times by lessee's cash flow in 1988, and 15 of the facilities are paying bonus rent to HVT under the lease terms.

EPS and Dividends. HVT earned $2.06/sh. in 1988, up 2.5%, and cash available for distribution rose 9.0% to $2.66/sh. EPS fell 11% to $0.48 in the March qtr., mainly because of higher interest on fixed-rate debt, but cash available for distribution fell only 1.5% to $0.67/sh. HVT boosted payout 1.5% to a $2.68 annual rate.

HVT properties are diversified as follows by invested assets: Psychiatric hospital, 51%; general health, 27%; rehabilitation, 11%; skilled nursing, 5%; substance abuse, 3%; medical office, 3%.

Advice: Hold or buy for recovery. Uncertainty over HII

will continue to depress HVT's stock price. But a 16.9% yield is justifiable compensation. HVT's own leverage, at 1.07 times equity, should help HVT in the rate environment unfolding. A plus is HVT's repurchases of its own shares. If property revenues grow, HVT should do well longer-term. (KDC)

HVT-ASE Rank B Dec. years 11.32 mil. shs.
Price: $15.88 Div. $2.68 Yld. 16.9%

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	$1.05a	$1.25	$1.25	$23.50	$19.75	11- 9%a
1987	2.01	2.44	2.34	23.25	15.00	16-10
1988	2.06	2.66	2.58	21.00	16.50	16-12
1989E	2.05	2.70	2.70	18.00	13.88z	

z-To date.

Finances: Debt: $229.8 mil.; Equity: $214.7 mil.; Deprec. $14.2 mil.; total $20.22/share. Debt/Eq. Ratio: 1.07-1.
Address: 9737 Great Hills Tr., Box 4008, Austin, TX 78765. (512) 343-5234

Health REITs 61389

HEALTH & REHABILITATION PROPERTIES TRUST (HRP:NYSE)

HRP owns specialized health facilities active in head trauma and pulmonary rehabilitation, substance abuse, adolescent psychiatry, and skilled and intermediate care, all areas in which management sees above-average potential revenue growth. It is sponsored by principals of Greenery Rehabilitation Group Inc. (GRGI-OTC) and Continuing Health Care Corp. (a private company owned by New MediCo), which account for 30% and 31% of HRP's net leases respectively. These principals also own HRP's adviser. HRP also leases facilities to other operators. Rank continues at C.

Gut Issue: Lower interest rates are giving HRP a higher stock price and wider investor recognition. So far HRP has done three textbook things to attract investment support: (1) Spread risk by investing in properties managed by several operators; (2) Lessened dependence upon government cost control and funding pressures by investing in speciality facilities serving a high percentage of private-pay patients; and (3) Shortened initial lease term to as little as seven years to maximize inflation protection.

But all these business-school tactics went unrecognized until rates started falling. Investors have been, and still are, standoffish because of the smaller size and shorter track records of HRP's major sponsors and lessees. In the March qtr., one smaller operator, Care Centers, faltered and HRP took back a Michigan center with 189 beds. The center was then re-leased to an affiliate of a related company, New MediCo. While this incident shows the willingness of HRP's entrepreneurial sponsors to deflect problems, it also continues a pattern of reliance upon sponsors.

EPS, CFS and Dividends. Ultimately HRP will have to win a higher multiple with above-average cash flow and dividend gains. HRP's net income fell slightly in 1988 to $0.77/sh. but operating cash flow, including depreciation, rose 5.6% to $1.13/sh. Under this same accounting, March qtr. EPS fell to $0.20/sh. but operating CFS rose 7% to $0.30/sh. CFS is the more important number to watch, because HRP and other health care REITs base distributions on CFS. Withal, HRP held March qtr. payout level at $0.28, or $1.12 annual rate. We see a small CFS gain for 1989, to about $1.15/sh.

On the liability front, HRP moved to limit interest rate risk by arranging $70 mil. of five-year debt capped at 9.75% and 10.0%. Even tho debt is a low 0.85 times equity, this financing gives HRP important protection against rate rises.

Assets: HRP paid $23 mil. to buy a 201-bed nursing and rehabilitation facility from Greenery in May 1989, bringing total investments to $176.9 mil. at cost. Investments include 2,766 beds and are divided 85% equity ownership of 15 net leased properties with 2,373 beds (average cost $63,500/bed); and 15% mortgages on four properties with 393 beds (loans averaging $66,500/bed). About 87% of beds are skilled or intermediate care nursing homes, some providing specialized care; 6% are rehabilitation centers for head injuries; and 6% psychiatric centers. Beds are 46% Conn., 19% Mass., 14% Mich., 8% Ohio, plus four other states.

All are operated under lease or mortgage as follows after recent changes: Greenery, 32% of beds; Continuing Health Care, 23%; United Medical Corp., 6%; Horizon Healthcare Corp., 23%; Community Re-Entry Services/New MediCo, 10%; and Care Centers of Mich., 6%. Leases provide for base rent plus overages geared to revenue gains.

Advice: Hold/buy. Downside risk looks low. (KDC)

HRP-NYSE Rank C Dec. years 10.00 mil. shs.
Price: $9.00 Div.$1.12 Yld. 12.4% Price/CFS: 7.8X

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	$0.02a	$0.03	$0.025	$10.00	$ 9.38	NM- NM
1987	0.85	1.07	1.06	10.13	6.75	16-7%
1988	0.77	1.13	1.12	9.38	7.38	15-12
1989E	NE	1.15	1.14	9.00	7.50	

a-8 days; initial offering 12/23/86. zTo date. NM-Not meaningful.

Debt $70.0 mil. Equity: $82.2 mil.; Deprec. $5.6 mil.; total $8.78/sh. Debt/equity ratio: 0.85-1. Greenery owns 9.9%; Continuing 6.9%.
Address: 215 First St., Cambridge, Mass. 02142. (617) 661-3112.

Health REITs 61389

MEDITRUST (MT:NYSE)

MT, the largest health care REIT, has rapidly expanded and diversified from 87% of its portfolio leased to original sponsor Mediplex Group, Inc., (subsidiary of Avon Products now being divested) to 53% today. The remaining 47% of MT's facilities are net leased to other third-party operators. MT has moved aggressively to become a full-range financier of health care properties and assets rose $115 mil. or 26% the past six months, fastest growth track in this group. Our B Rank continues.

Gut Issue: Will MT shares start to reflect the risk of

financing development properties, plus uncertainty surrounding its largest single operator? MT has entered financing agreements for five under-development facilities totaling approx. $44 mil. While MT's budding mortgage lending has gone well so far, construction lending historically has carried more risk than ownership and leasing of completed properties.

Under the deals so far, MT provides construction financing and would later acquire the property or provide permanent mortgage financing. The planned facilities are: a 187-bed long-term facility in Plano, Tex.; a 60-bed rehabilitation hospital in Arlington Tex.; a 60-bed rehabilitation hospital in Bakersfield, Calif.; and a 70-bed pychiatric hospital in College Station, Tex.

Mediplex sale: Avon Products plans to divest Mediplex, creating uncertainty about MT's major lessee. Avon has identified a potential acquirer of Mediplex in privately owned West Corner Assoc. Financing is to be provided by Chase Manhattan. MT wants some credit or rate enhancement for its leases before it consents to the sale, which could close by the end of June.

Financing. MT is well funded at the moment. In Feb. it completed a $100 mil., 10.86% private placement of unsecured senior notes, due 2001. The lenders were The Prudential, CIGNA, and Aetna Life Insurance Cos. And MT hasn't painted itself into a corner; its debt/equity ratio is only 1.29 to 1. Proceeds were used to extinguish existing short-term floating rate debt of approx. $60 mil.

EPS, CFS and Dividends. With an 11.5% current yield, MT sells slightly below the group average. So far the market has reacted to possibility of a West Corner deal by putting the stock in a holding pattern. We think any negative impact of this impending ownership change in Mediplex is behind, especially in view of the fact that Mediplex operates less than 50% of MT's properties and this percentage should move still lower.

At Mar. 31, 1989, MT had investments of $513.9 mil. in 78 facilities with 8,882 beds in 22 states divided 75% property owned and partnerships; 15% mortgages; and 10% construction in progress. By property type gross investments are: Long-term care facilities, 34%; alcohol and substance abuse treatment centers, 21%; rehabilitation hospitals, 21%; psychiatric hospitals, 9%; retirement centers, 2%; and mortgage loans, 13%.

Eight of MT's facilities are currently under construction. Operating facilities include: 21 long-term nursing care facilities with 3,649 beds and average cost of $51,835/bed; four alcohol and substance abuse facilities with 524 beds (cost $228,053/bed); four psychiatric with 327 beds at $154,768/bed; five rehabilitation hospitals with 384 beds under construction at $158,417/bed; and one retirement living facility with 320 units and 120 beds. All are leased to third-party operators at base rents plus, for most, percentages of revenue increases. Mediplex guarantees 17 leases for 53% of the portfolio.

Advice: Hold shares. An 8%-10% CFS gain for 1989 seems in store, making stock attractive, but with increased risks of financing construction and managing fast growth. Other health care REITs offer relatively safer returns. (MJH)

MT-NYSE Rank B Dec. years. 15.72 mil. shs.
Price: $17.88 Div. $2.06 Yld. 11.5% Price/CFS: 8.2

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1985	$0.24a	$0.31	$0.31	$13.17	$11.67	NM- NM
1986	1.17	1.65	1.58	19.83	12.83	12-8%
1987	1.24	1.85	1.78	20.50	14.00	13-9
1988	1.17	2.07	1.97	21.38	16.25	12-9
1989E	NE	2.20	2.10	18.38	15.75z	

a-From Oct. 17, after offer at $13.33. z-To date. NM-Not meaningful.

Debt $298.4 mil. Equity: $231.7 mil.; Accum. deprec.: $17.5 mil.; total $15.85/sh. Debt/equity ratio: 1.29-1.
Address: 128 Technology Ctr., Waltham, Mass. 02154. (617) 736-1500.

NATIONWIDE HEALTH PROPERTIES, INC. (NHP:NYSE)

Health REITs 6/1389

NHP, formerly Beverly Investment Properties, owns 109 health facilities (108 nursing homes, one rehabilitation hospital in Ariz.,) with 13,124 beds and an average cost of approx. $22,100/bed. Properties are located 29% in Mich. and Wisc., with remainder in 23 other states. All but seven are net leased to Beverly Enterprises Inc. (BEV-NYSE), a troubled nursing home operator and NHP's initial sponsor. NHP terminated its advisory agreement with BEV in Aug. 1988 and became self-administered, thus distancing itself from troubled BEV. We maintain C Rank.

Gut Issue: NHP stands to gain big if interest rates fall — but only if it can meet stringent, short-term repayment terms of its credit agreement in time to preserve its scaled-down $1.00/sh. dividend. Rising operating costs and state regulators put the squeeze on BEV, which lost $30.5 mil. in 1987, another $23.9 mil. in 1988, and $9.2 mil. in the March qtr. When NHP's $150 mil. revolver first came due in May, 1988, NHP's lenders kept NHP on a short leash, demanding that NHP pledge its assets to secure the debt and make rapid repayment. NHP's problems were compounded when some banks wanted out of NHP's credit almost immediately, forcing NHP to come up with substitute lenders.

Bottom line: NHP cut payout to $1.00/sh. annual rate with the March qtr. to satisfy banks but holding that rate depends upon NHP repaying $42.5 mil. of its $106.5 mil. borrowings by Oct. 31, 1989, and $72.5 mil. by Jan. 31, 1990. One strategy is for NHP to sell assets, and NHP has just agreed to sell 10 nursing homes in Iowa and Ark. for about $22.5 mil., or book value. Regulators must approve. Previously in 1988, NHP sold three nursing homes with 262 beds at $23,200/bed, about its cost, recording $0.03/sh. gain.

But NHP says its preferred path is to find new lenders willing to replace its present banks and so NHP is marketing packages of mortgages on existing nursing homes. Progress to date has been slow. Hopefully lower rates will make lenders more willing to buy these packages.

Lower rates also should help NHP boost EPS. NHP earned $1.32/sh. in 1988, down 16%, and gross cash flow fell only 2% to $2.34/sh. The crunch at NHP's major lessee kept payout to $1.79/sh. EPS fell 28% to $0.28/sh. in the March qtr. but gross cash flow fell only 8% to $0.56/sh. Thus NHP has plenty of cash flow room to boost payout — if only it can settle financing uncertainties.

Operations: NHP's properties are improving amid the concern about BEV. They were 92.0% occupied in 1988 and 22.5% of patients are non-government payors. Incentive rents in NHP's leases generated $0.13/sh. income in 1988 and should do about $0.18/sh. in 1989, subject to any dispositions. BEV's property cash flow covered NHP's rents 1.15 times in the second half of 1988, and the homes leased from NHP are profitable.

NHP shares traded as low as $9.75 in initial panic over BEV but have recovered to the current $12.00 to yield 8.3% on the $1.00 payout. Confidence votes have been cast for BEV's recovery: An investor group led by Castle & Cooke chairman, David Murdock, recently acquired a 6.3% BEV stake following 5.9% acquired by the Pritzker family.

Advice: NHP shares now have some speculative merit, based on belief that falling interest rates will aid refinancing efforts. NHP appears cheap at 43% below combined book value plus depreciation, values NHP is obtaining on property sales. We believe BEV will stay current on its leases, but NHP's ability to refinance bank lines is the crucial question. (KDC)

NHP-NYSE Rank C Dec. years 8.20 mil. shs.
Price: $12.00 Div. $1.00 Yld. 8.3%

Yr.	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	$1.62	$2.20	$2.13	$29.00	$19.38	11-7%
1987	1.57	2.38	2.30	26.38	16.50	14-9
1988	1.32	2.34	1.79	20.38	9.75	18-9
1989E	NE	2.20	1.00	13.63	10.25z	

z-To date. NE-No estimate.

Finances: Debt: $125.1 mil. Equity: $146.2 mil.; deprec. $19.5 mil.; total $20.22/sh. Debt/equity ratio: 0.86-1.
Address: 35 N. Lake St., Suite 540, Pasadena, Cal. 91101. (818) 405-0195.

Health REITs 6/1389

UNIVERSAL HEALTH REALTY INCOME TRUST (UHT:NYSE)

UHT owns eight acute-care hospitals and three psychiatric hospitals with a total of 1,325 beds leased back to sponsor Universal Health Services Inc. (UHSIB:OTC). Growth has been steady and management follows a conservative path in financing and acquisitions. Our A Rank is held.

Gut Issue: Will UHT have to resort to the growing industry trend of financing to-be-built facilities? The timing is right for UHT to make a debt offering, but it could encounter problems finding attractive deals in existing properties to deploy proceeds. Under this current scenario, many health care REITs have taken to construction/development financing with purchase options. While this does provide investments at attractive yields it also entails quite a bit more risk than investors have been accustomed to.

Conservative UHT is moving in this direction. UHT has committed $7.6 mil. for sale/leaseback financing of a new 60-bed rehabilitation hospital in Evansville, IN scheduled for completion any day now. UHT has also committed to provide $3.3 mil. of construction and mortgage financing during 1989 for leasehold improvements to be performed at the Meridell Achievement Center, Austin, Tex. psychiatric hospital.

UHT is also using bank funds to provide mortgage financing for the 90-bed Lake Shore Hospital in Manchester, N.H., with a 10 year loan totaling $13 mil. at 13.56%. An equity kicker gives UHT 90% of the acute-care hospital's appreciation up to $3.6 mil. in the next five years, and 10% of the appreciation above that point. Bank debt at Mar. 1989 was $39.5 mil. of an available $40 mil.

The last equity addition in UHT's portfolio was in Mar. 1988, when it acquired the 118-bed, De La Ronde acute care hospital in Chalmette, Louis., for approx. $9.5 mil. or $80,508/bed. UHT's facilities covered lease payments by a strong 2.5 times in 1988.

Share repurchases: UHT bought back 268,600 shares at an average of $11.36/share in 1988, but added only 2,600 shs. at $12 in the Mar. qtr. It has approval to buy an additional 428,000 shs.

CFS and Dividends. EPS of $1.15/sh. in 1988 rose 9.5%. CFS rose a steeper 13% to $1.55 on minimum rents on wholly-owned facilities of $14.85 mil. and percentage rents of $464,000 (or $0.06/sh.). No percentage rent was received in 1987. March qtr. EPS and CFS of $0.29/sh. and $0.40/sh., up 7.4% and 8.6% respectively. Payout in 1988 was $1.38 but was jumped to an annualized $1.44 per share in the March qtr. Cash flow should increase 5-10% in 1989 on higher percentage rents and interest income.

Advice: Buy shares for secure yield. UHT is still the most conservative health care REIT with a debt/equity ratio of 0.49-1. While UHT's mortgage loans offer attractive yields relative to those available today for equity ownership, they also introduce slightly higher risk to the stock. (MJH)

UHT:NYSE Rank: A Dec. years 7.05 mil. shs.
Price: $12.88 Div. $1.44 Yld. 11.2% Price/cash flow: 8.4X

Year	EPS	CFS	Div.	High	Low	Yield
1986a	$0.02	NM	$0.00	$10.75	10.13	0-0 %
1987	1.05	$1.37	1.33	11.63	8.25	16-11
1988	1.15	1.55	1.38	12.38	9.25	15-12
1989E	1.20	1.65	1.48	13.63	11.50z	

a-Began operations 12/86 z-To date.

Finances: Debt: $45.0 mil. Equity: $92.1 mil. or $13.97/sh. incl. $6.3 mil. deprec. Debt/equity ratio: 0.49-1.
Address: Universal Corp. Center, 367 S. Gulph Rd., King of Prussia, Pa. 19406. (215) 265-0688.